

1. Background

Section 139 of Companies Act 2013 contains requirements relating to appointment of statutory auditors. The person (s) proposed to be appointed as statutory auditor should meet the eligibility criteria and possess the qualification prescribed under Sec 141 of the Act and also not be covered by the disqualifications specified therein.

Reserve Bank of India (RBI) vide notification No.RBI/2021-22/25 Ref.No. DoS.CO. ARG/SEC.01/ 08.91.001/2021-22 dated April 27, 2021 has issued guidelines for Appointment of Statutory Auditors (Statutory auditors) of Commercial Banks (excluding RRBs), UCBs and NBFCs (including HFCs). Subsequently, clarification were issued on June 11, 2021. The RBI guidelines require a Board approved policy for appointment of statutory auditors to be hosted on the official website / public domain and to formulate necessary procedure thereunder to be followed for the appointment of Statutory auditors.

All matters related to appointment of statutory auditors would be considered and implemented in compliance with applicable regulations.

2. Applicability

These guidelines will be applicable to the NBFCs for Financial Year 2021-22 and onwards in respect of appointment / reappointment of Statutory auditors of NBFCs..

3. Intimation to RBI:

Intimation to the RBI would be made within about the appointment of Statutory auditors for each year within one month of such appointment.

4. Number of Statutory auditors

4.1 Since the asset size of the Company is above ₹15,000 crores as at the end of previous year (i.e March 31, 2021), the statutory audit shall be conducted under joint audit of a minimum of two audit firms and maximum of four audit firms [Partnership firms / Limited Liability Partnerships (LLPs)]. The Company shall ensure that joint auditors do not have any common partners and they are not under the same network of audit firms.

4.2 The Company will decide on the number of Statutory auditors taking into account the relevant factors such as the size and spread of assets, accounting and administrative units, complexity of transactions, level of computerization, availability of other independent audit inputs, identified risks in financial reporting, etc.

4.3 Adherence to the provisions of Section 143 (8) of the Companies Act, 2013 regarding audit of accounts of all branches should be ensured.

5. Eligibility Criteria of Auditors

A. Basic Eligibility

Asset Size of Entity as on 31 st March of Previous Year	Above ₹15,000 crore
Minimum number of full-time partners (FTPs) associated with the firm for a period of at least three years	5
Out of total FTPs, minimum number of Fellow Chartered Accountant (FCA) partners associated with the firm for a period of at least three years	4
Minimum number of FTPs / paid Chartered Accountants (Cas) with Certified Information System Auditor (CISA) / ISA qualification	2
Minimum number of years of audit experience of the firm	15
Minimum number of professional staff	18

B. Additional Considerations

- i. The audit firm, proposed to be appointed as Statutory auditors for the Company, shall be duly qualified for appointment as auditor of the Company in terms of Section 141 of the Companies Act, 2013.
- ii. The audit firm shall not be under debarment by any Government Agency, National Financial Reporting Authority (NFRA), the Institute of Chartered Accountants of India (ICAI), RBI or Other Financial Regulators.
- iii. The Company shall ensure that appointment of Statutory auditors is in line with the ICAI's Code of Ethics / any other such standards adopted and does not give rise to any conflict of interest.
- iv. If any partner of a Chartered Accountant firm is a director in the Company, the said firm shall not be appointed as Statutory auditor of any of the group entities of the Company.

–Group Entities here refer to the RBI Regulated Entities in the Group, which fulfil the definition of Group Entity, as provided in the Circular. Therefore, if any partner of a Chartered Accountant firm is a director in an RBI Regulated Entity in the Group, the said firm shall not be appointed as SA of any of the RBI Regulated Entities in the Group. However, if an audit firm is being considered by the Company for appointment as Statutory auditors, whose partner is a director in any of the Group Entities (which are not regulated by RBI), the said audit firm shall make appropriate disclosures to the ACB as well as Board.

- v. The auditors for the Company should preferably have capability and experience in deploying Computer Assisted Audit Tools and Techniques (CAATTs) and Generalized Audit Software (GAS), commensurate with the degree/ complexity of computer

environment of the Entities where the accounting and business data reside in order to achieve audit objectives.

6. Independence of Auditors

- 6.1 The Audit Committee of the Board (ACB) shall monitor and assess the independence of the auditors and conflict of interest position in terms of relevant regulatory provisions, standards and best practices. Any concerns in this regard may be flagged by the ACB to the Board of Directors of the Company and concerned Senior Supervisory Manager (SSM) / Regional Office (RO) of RBI.
- 6.2 In case of any concern with the Management of the Company such as non-availability of information / non-cooperation by the Management, which may hamper the audit process, the Statutory auditor shall approach the Board / ACB of the Company, under intimation to the concerned SSM / RO of RBI.
- 6.3 The time gap between any non-audit works (services mentioned at Section 144 of Companies Act, 2013, Internal assignments, special assignments, etc.) by the Statutory auditors for the Company or any audit/non-audit works for its group entities should be at least one year, before or after its appointment as Statutory auditors. However, during the tenure as SA, an audit firm may provide such services to the concerned Entities which may not normally result in a conflict of interest, and the Company shall take their own decision in this regard, in consultation with the Board / ACB.

The Group Entities refer to the RBI Regulated Entities in the Group, which fulfill the definition of Group Entity, as provided in the Circular. However, if an audit firm engaged with audit/non-audit works for the Group Entities (which are not regulated by RBI) is being considered by the Company for appointment as Statutory auditors, the Board / ACB would examine and ensure that there is no conflict of interest and independence of auditors is ensured.

Before appointment of an audit firm as Statutory auditor of the RBI Regulated Entity, there should be a time gap of minimum one year between this appointment and completion of the assignment of any non-audit works given to the same audit firm in that RBI Regulated Entity or completion of any audit/non-audit works in other RBI Regulated Entities in the Group. This stipulation shall be applicable prospectively, i.e. from FY 2022-23. Therefore, if an audit firm is involved in some non-audit work with the Entity and/or any audit /nonaudit work in other RBI Regulated Entities in the Group and completes or relinquishes the said assignment prior to the date of appointment as Statutory auditor of the Entity for FY 2021-22, the said audit firm would be eligible for appointment as Statutory auditor of the Entity for FY 2021-22.

The time gap between any non-audit works by the Statutory auditors for the Entities or any audit/non-audit works for its Group Entities should be at least one year after completion of the audit assignment as Statutory auditor.

The restrictions above, would also apply to an audit firm under the same network of audit firms or any other audit firm having common partners.

7. Professional Standards of Statutory auditors

7.1 The Statutory auditors shall be strictly guided by the relevant professional standards in discharge of their audit responsibilities with highest diligence.

7.2 The Board / ACB of the Company shall review the performance of Statutory auditors on an annual basis. Any serious lapses/negligence in audit responsibilities or conduct issues on part of the Statutory auditors or any other matter considered as relevant shall be reported to RBI within two months from completion of the annual audit. Such reports should be sent with the approval / recommendation of the Board / ACB, with the full details of the audit firm.

7.3 In the event of lapses in carrying out audit assignments resulting in misstatement of the Company's financial statements, and any violations / lapses vis-à-vis the RBI's directions/guidelines regarding the role and responsibilities of the Statutory auditors in relation to the Company, the Statutory auditors would be liable to be dealt with suitably under the relevant statutory/regulatory framework.

8. Tenure and Rotation

8.1 In order to protect the independence of the auditors/audit firms, Statutory auditors shall be appointed for a continuous period of three years, subject to the audit firms satisfying the eligibility norms each year. In case the Statutory auditor is removed before completion of three years, the Company shall inform concerned Senior Supervisory Manager / Regional Office of RBI along with reasons/justification for the same, within a month of such a decision being taken.

8.2 An audit firm would not be eligible for reappointment in the Company for six years (two tenures) after completion of full or part of one term of the audit tenure. However, audit firms can continue to undertake statutory audit of other Entities.

8.3 One audit firm can concurrently take up statutory audit of eight NBFCs during a particular year, subject to compliance with required eligibility criteria and other conditions for each Entity and within overall ceiling prescribed by any other statutes or rules. A group of audit firms having common partners and/or under the same network, will be considered as one entity and they will be considered for allotment of Statutory auditor accordingly. Shared/Sub-contracted audit by any other/associate audit firm under the same network of audit firms is not permissible. The incoming audit firm shall not be eligible if such audit firm is associated with the outgoing auditor or audit firm under the same network of audit firms.

9. Audit Fees and Expenses

9.1 The audit fees for Statutory auditors of the Company shall be decided in terms of the relevant statutory / regulatory provisions.

9.2 The audit fees for Statutory auditors of the Company shall be reasonable and commensurate with the scope and coverage of audit, size and spread of assets, accounting and administrative units, complexity of transactions, level of computerization, identified risks in financial reporting, etc.

10. Appointment Procedure

10.1 The Company shall shortlist minimum of two audit firms for every vacancy of Statutory auditor.

10.2 The Company shall obtain a confirmation along with relevant information from each of the audit firms proposed to be appointed as Statutory auditors that it complies with all the eligibility norms.

10.3 The Audit Committee shall recommend the appointment to the Board and the Board shall recommend the same for the approval of the shareholders.

11. Engagement of Auditors for non-audit services

The provisions of section 144 of the Companies Act, 2013 allows statutory auditors to provide non audit services subject to the approval of the Audit Committee or the Board and other conditions prescribed. The Audit Committee of the Board is vested with the responsibility of reviewing and monitoring the independence of the statutory auditor. The Audit Committee shall approve engagement of statutory auditors for non-audit services.

12. Conflict with Policy

In the event of a conflict between this Policy and the extant regulations or laws (as may be amended, replaced, restated, from time to time), the regulations and laws shall prevail.

13. Review

This Policy shall be reviewed by the Board as and when necessary for making changes due to change in applicable law or regulation, subject to a review once in every three years.